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## Tax Compliance Tips for Convenience Stores

Operating a convenience store involves handling a great deal of paperwork that can leave some store owners confused. Businesses often have difficulty sorting through the many requirements necessary when setting up their records. In order to provide some clarity about these requirements, the State Board of Equalization (BOE) can provide useful information and tips to assist you in establishing and maintaining proper recordkeeping to ensure your store accurately reports and pays only the proper amount of sales and use tax.

Here are some frequently asked questions regarding record retention for convenience stores. Please keep in mind other government agencies may have different recordkeeping requirements for convenience stores.

**Q: What is the purpose of keeping proper business records?**

A: You need to keep proper business records so the BOE may verify the accuracy of your sales and use tax returns. You want to make sure you pay only the correct amount of tax.

**Q: What basic types of records am I required to maintain?**

A: You should keep all records required to determine the proper amount of tax you may owe. This includes, but is not limited to: normal books of account showing your business income and expenses; documents of original entry, such as invoices, receipts, purchase orders, other documents you use as the basis for your books of account, and all schedules or working papers you utilize in the preparation of your sales and use tax returns.

**Q: What type of information should my records include?**

A: Your records should include: the gross receipts from all of your business income, daily sales totals, inventory purchase lists, point-of-sale service charges, and lottery sales. They also should include all documents that support the deductions you claim on your sales and use tax returns.

**Q: Are there additional records specific to convenience stores that would be helpful in determining an accurate assessment of reported sales?**

A: Yes. In addition to maintaining basic business records, you should also develop and maintain separate inventory logs of the following sales transactions:

- Purchase lists detailing the total purchase price of all items, segregating nontaxable items and taxable items you bought to sell, lease, use, keep, or give away.
- Point-of-sales fees (debit card service charges).

- Documents that substantiate shrinkage in excess of the industry standard. Retailers should obtain supporting documentation with specific proof of loss, such as insurance claims, police reports, and signed affidavits from witnesses.
- Recorded transactions and retained receipts of all merchandise removed from inventory for other use, such as supplies.

Z-tapes from simple cash registers may be used to verify daily sales when current records are minimal. However, please keep in mind that this method of recordkeeping can be subject to error due to employees improperly entering sales transactions.

**Q: My sales are processed by utilizing electronic scanners instead of a simple cash register. Are there any specific records to maintain for the scanners?**

A: Yes. One of the advantages of utilizing electronic scanners is it can eliminate some of the need to handle large quantities of paper records. The following reports are of paramount importance for all convenience stores and should be run and maintained regularly:

- Master List Report – Contains a listing of all taxable and nontaxable products sold. This report also should include the Universal Product Codes, the product’s taxable or nontaxable status, product description, package or size of product, and warehouse or vendor number.
- Product Coding Report – A review of product codes that verify the products are coded correctly. This report should include all additions of new products, deletions of old products, and coding changes of existing products that have occurred since the preparation of the prior period’s report.
- Product Movement Report – This is an inventory tracking report that includes the movement of the items contained in the “Master List” report.
- General Outline of Reports – This is a summary report that includes information on the type of records and reports generated and a description of who tests and maintains the scanning system. Be sure to list the individual or business authorized to enter and/or alter information contained in the “Master List.” The outline should also address how the system accounts for food stamps, coupons, etc. and, if applicable, how sales where scanners are not used are accounted for.

**Q: How long should I maintain my records?**

A: You are required to hold sales and use tax records for at least four years unless the BOE gives you specific written authorization to destroy them sooner. If you are being audited, you should retain all records that cover the audit period until the audit is completely finished. If you have a disputed amount, you should retain the related records until that dispute is resolved. However, for reporting periods beginning before January 1, 2003 that are subject to the extended 10-year statute of limitations under the 2005 Tax Amnesty Program, records required to be retained must be preserved for a period of not less than 10 years.

**Q: What should I expect if I am audited?**

A: If you are contacted by the BOE for review, the auditor will tell you the audit period (usually three years) and ask about your business operations, accounting methods, and the type of records kept. The auditor also will identify the records you should have ready for the audit. You must provide all relevant records to the auditor, who is required to keep them confidential.

The auditor usually starts the audit with a preliminary examination of your records. This examination gives the auditor an idea of the records available and procedures used to record your transactions. Based on a brief review of your records, the auditor may feel an audit is not needed. If this is the case, you will receive a notice waiving the audit. However, this notice does not constitute written advice that you are reporting tax correctly. If the preliminary tests indicate possible reporting errors, a more complete review may be required.

Audits are intended to ensure you pay only the correct amount of tax – no more, no less. Oftentimes, audits result in no change to tax liability, while some audits result in a refund.

**Q: What should I do if I did not keep all of the records I should have?**

A: If some essential records are not available, tell the auditor what records you do have. Sometimes, missing records may be reconstructed from information provided by suppliers or customers. The auditor should be able to assist you if you have any concerns.

**Q: What if I disagree with the audit results?**

A: If you disagree with the audit results, the auditor generally will defer preparing the final audit report until you have provided information to support your argument. You should clearly explain why you disagree and ask the auditor about the documentation you need to support your position.

**Available Resources**

- **BOE Publications:** The following free publications are available at [www.boe.ca.gov](http://www.boe.ca.gov):
  - **Audit Manual**
  - **BOE Publication 24: *Tax Tips for Liquor Stores***
  - **BOE Publication 31: *Tax Tips for Grocery Stores***
  - **BOE Publication 76: *Audits***
  - **BOE Publication 116: *Sales and Use Tax Records***
  - **BOE Special Notice: *Tax Amnesty* (November 2005)**
- **For Further Information:** To obtain further information, please call the BOE Information Center toll-free at 1-800-400-7115 or visit: [www.boe.ca.gov](http://www.boe.ca.gov).